LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 25, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB4231** by White (relating to allocating a portion of oil and gas production tax revenue to the counties from which the oil and gas originated.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4231, Committee Report 1st House, Substituted: an impact of $0 through the biennium ending August 31, 2019.

However, the bill will have a negative impact to General Revenue Related Funds of ($140,084,000) during the 2020-21 biennium.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	$0
2019	$0
2020	($66,142,000)
2021	($73,942,000)
2022	($76,803,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue Gain from *Severance Tax Trust Fund*	Probable (Cost) from *Severance Tax Trust Fund*
2018	$0	$0	$0	$0
2019	$0	$0	$0	$0
2020	($1,198,000)	($64,944,000)	$64,944,000	($48,708,000)
2021	($133,000)	($73,809,000)	$73,809,000	($71,592,750)
2022	($133,000)	($76,670,000)	$76,670,000	($75,954,750)

Fiscal Year	Probable Revenue Gain from *Counties*	Change in Number of State Employees from FY 2017
2018	$0	0.0
2019	$0	0.0
2020	$48,708,000	2.0
2021	$71,592,750	2.0
2022	$75,954,750	2.0

Fiscal Analysis

The bill would amend Sections 201.404 and 202.353 of the Tax Code, regarding the allocation of oil and natural gas severance tax revenue, and add Chapter 205 to the Tax Code to create the Severance Tax Trust Fund outside the state treasury and held with the Comptroller in trust.

The bill would reduce the share of revenue collected from those taxes and deposited to the General Revenue Fund from 75 percent to 73 percent, and allocate the remaining 2 percent to the new trust fund. From the new trust fund, the Comptroller would remit to each county the tax revenue attributable to that county's oil and natural gas production by the 90th day after the last day of a collection month. A county would use the money received to supplement construction and maintenance of county roads and bridges that are impacted by oil and gas exploration and production activities.

This bill would take effect September 1, 2019

Methodology

The fiscal impact analysis is based on the Comptroller's 2018-19 *Biennial Revenue Estimate*. It is assumed that the counties allocation of revenue from the Severance Tax Trust Fund will be remitted to counties 90 days after the month that severance tax is deposited into the trust fund.

There would be a possible conflict with the constitutional requirement that allocates 75 percent of the taxes in excess of the net amounts received in fiscal 1987 to the Economic Stabilization Fund and the State Highway Fund. In that case, the constitutional transfers would take precedence over the transfer to the severance tax trust fund.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either in, with, or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

The administrative cost includes a one-time technology cost of $1,065,000 and the funds necessary to hire two accounts examiner IIIs to handle the anticipated workload increase. Out of 254 Texas counties, 219 submit severance taxes to the Comptroller's office. The FTE request is based on current personnel needs for processing monthly sales tax allocations to local taxing jurisdictions.

Technology

The Comptroller of Public Accounts indicates there would be a one-time technology cost of $1,065,000 in fiscal 2020 for an estimated 7,100 hours for programming allocations and reporting tax systems. The CPA would need to develop an allocation program for each of the four crude oil and natural gas taxes with accompanying mainframe, web and PowerBuilder development and report generation. The reporting enhancements will need to accommodate multiple counties per lease for leases that may be producing from multiple adjacent counties. As prices fluctuate, periodic deallocation is also likely, requiring additional programming.

Local Government Impact

Counties that have oil and natural gas production located in their borders would receive revenue from the newly created Severance Tax Trust Fund.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, LCO